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C O N F I D E N T I A L SECTION 01 OF 03 MANAGUA 001187

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SUBJECT: NICARAGUA LABOR: MINIMUM WAGE BATTLE CONTINUES

REF: MANAGUA 578

Classified By: Ambassador Robert J. Callahan for reasons 1.4(b,d)

11. (C) SUMMARY: After several rounds of the most recent semiannual tripartite minimum wage negotiations, there is still no consensus on the next increase, and no one seems interested in ending the negotiations any time soon. Business leaders are willing to accept an 11.7% increase on top of a 15% increase granted in January and their ability to remain competitive in the face of rising labor costs; labor union representatives now demand a 35% increase to recover lost purchasing power from high food and fuel costs; and the government proposes a 13% increase to maintain jobs. With the GON offer finally tabled, labor union leaders aligned with the Sandinista National Liberation Front (FSLN) are beginning to cave; however, there is still no agreement and the process will most likely continue until after the November Municipal elections to avoid any distracting labor-government confrontations. END SUMMARY.

Background: Nicaraguan Minimum Wage Law
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12. (SBU) The Nicaragua Minimum Wage Law (Law 625) was pushed through the National Assembly in June 2007 by the FSLN deputies without permitting substantial modifications by the opposition. The law establishes the minimum wage according to occupations, including, construction, free trade zones, financial services, domestic/service, and others. It stipulates that the minimum wages for these occupations will be reviewed every six months by the National Commission of Minimum Wage, a tripartite body that includes business, labor and government representatives. The Commission's mandate is to discuss appropriate adjustments to the minimum wage that reflect inflation and economic growth as reported by Nicaragua's Central Bank. Once there is agreement among the business, labor, and government representatives, then the new minimum wage can take immediate effect or can be retroactive to the start of negotiations. If no agreement is reached through the tripartite negotiations after two months of meetings, then the GON has 30 days to unilaterally declare the new minimum wage. To date, there have been three convocations of the National Commission of Minimum Wage, and the next statutory convocation is scheduled for November 12008.

Round One: Business Budges a Bit
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13. (SBU) The Federation of Nicaraguan Business Associations (COSEP) and the FSLN-affiliated Small Business Association (CONAPI) initially proposed an 11.29% increase to the minimum wage during the first round of the current semiannual tripartite negotiation that began the first week of August. Business representatives raised their offer to 11.73% after heated meetings with labor leaders, but have held firm at that level for the past month. COSEP and business leaders would not be willing to raise minimum wages above 12% and defend their position by claiming that it is "tied to (the formula in) the Nicaraguan minimum wage law" and an increase above 12% "is inconsistent with technical criteria."

Round Two: Divided Unions

14. (SBU) Although there was consensus between FSLN and non-FSLN labor unions after the first round of the annual tripartite negotiation, as second round opened, the FSLN-affiliated labor unions were divided over the percentage increase they should demand from the private sector. The FSLN-allied National Front of Workers (FNT), led by Luis Barbosa, and by National Assembly member and President of the Health and Social Security Committee Gustavo Porras, demanded a 53% increase to help workers fight rising inflation and the loss of purchasing power. Meanwhile, the FSLN-allied Central Trade Union of Sandinista Workers (CST), led by Roberto Gonzalez, demanded a 25% increase in the minimum wage with a 20% government subsidy for staples. The lack of consensus among the union representatives prolonged the second round of negotiations and delayed the presentation of government's offer. Porras, in particular, has been manipulating the tripartite process for his own political purposes. Throughout negotiations, he would suddenly leave the negotiation room to hold impromptu press conferences, in which he has bashed Nicaragua's business community and claimed to be the main labor spokesperson.

Round Three: Government Gives Little Ground

15. (SBU) On August 25, 2008, the GON, aware of its own budgetary constraints as a major employer, but also a self-proclaimed defender of Nicaragua's workers, offered a compromise that would raise the current minimum wage by 13%. GON representatives argued that its 13% offer, in addition to the January 2008 15% increase, would represent an overall 28% increase in the minimum wage for the year. Ivan Acosta, the Secretary General of the Ministry of Finance and Public Credit, defended the GON proposal by arguing that a larger increase would raise unemployment and threaten economic stability.

Round Four: Unions Cave, GON Seeks Business Agreement

16. (SBU) Since the GON tabled its compromise, Labor Minister Jeaneth Chavez has been absent from subsequent meetings and sent a lower ranking deputy to represent the government in these negotiations. Union leaders decried the absence of the main GON negotiator as evidence that there was no firm agreement. Porras, who is both a labor leader and Nicaraguan government official, rejected the GON's offer, claiming that it was not "serious and responsible" and that the GON's next offer would be more reasonable. However, Porras went on to unilaterally propose a 35% increase, significantly lower than labor's 53% starting point. Meanwhile non-FSLN-affiliated union leader, Emilio Marquez Acuna, took a harder line by remarking that the GON offer "signals contempt and indifference" toward the labor force of Nicaragua.

17. (C) Embassy business contacts involved in the tripartite negotiations said that after the GON announced its compromise offer, Labor Ministry officials secretly contacted them outside of the tripartite process to try to reach an agreement. The terms of GON-proposed agreement between

business and government would primarily benefit the GON, by allowing it to paint the Nicaraguan business community as hostile to labor. Our business contacts tell us that they would not support the one-sided GON proposal, nor would they walk out of the negotiations in protest again, as they have previously in the last two negotiations. However, they continue to believe that the semiannual negotiation process is "an unnecessary, never-ending, political three-ring-circus" that gives labor unions a "bully pulpit against business" and ultimately, scares-off foreign investment in Nicaragua because of the unpredictable labor costs.

Final Decision: After the Election?

18. (C) Union representatives, led primarily by Porras and Barbosa, were adamant in their demands for a 53% increase in the minimum wage until the FSLN-controlled GON made its offer. Now Porras, and other FSLN-affiliated labor leaders, seem to be walking back. Business leaders are still not willing to raise wages more than 12% at the expense of losing their cost advantages and increasing inflation. Despite Ortega's rhetoric, the GON is unable to move much closer to the union position because of its own limited budget for government employees. Our contacts tell us that the tripartite negotiations will continue until September 24th, when the GON begins its statutory 30-day period to unilaterally declare the next increase to minimum wages.

COMMENT

19. (C) Soaring food and fuel prices are fueling the heated debate at the Nicaraguan National Commission on Minimum Wage. These same economic issues are also at play with potential voters in the 2008 Municipal Election. We believe that in this pre-election environment, the FSLN-controlled government will further put off declaring a new, unilateral minimum wage increase until after the November municipal elections. This allows the GON to avoid any embarrassing labor confrontations or be perceived as treating workers unfairly. Union leaders, so far, have not threatened to strike. However, there is a significant division between FSLN-aligned unions that want to be more sympathetic to the GON position and non-FSLN-aligned unions that are willing to take a harder line, similar to the division that occurred during this summer's transportation strike (see REFTEL). We note that under a non-FSLN administration in an election year, a similar discrepancy between labor demands and the GON would have resulted in well-organized labor demonstrations and strikes.

CALLAHAN